RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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On the shocking smash of the Mexican and S. American stock markets, and the collapse of the peso -- remember, *"Bad things happen in bear markets."* You might also remember that primary bear markets are *international* in scope.

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"The Moving Finger writes, and, having writ,
Moves on: nor all your Piety nor Wit
Shall lure it back to cancel half a Line,
Nor all your Tears wash out a Word of it."
(Rubaiyat of Omar Khayyam)

THE PICTURE: Could Omar have been talking about the remorseless, emotionless stock averages? Hardly, but he might as well have been talking about them. We watch the various averages etch out their patterns, and we puzzle over the meaning of their movements. The action of the averages -- it is one of the greatest mysteries of finance. Men have spent their lives attempting to predict, decipher or analyze the movement of the averages. No one has ever come up with the ultimate solution.

Dow Theorist Robert Rhea, one of the greatest minds in stock market history, wrote that "if there had been a pot of gold at the end of the rainbow, I would have found it," for Rhea labored over the pattern of the averages for decades but never found THE ultimate answer. And even Rhea, who called the bottom of the 1929-32 bear market and the end of the 1932-37 bull market to perfection, even Rhea went wrong during the difficult (really impossible) period of 1938-39 (Rhea died in late-1939, and I suspect that those two maddening years went a long way towards killing him).

I've spent the better part of my life trying to understand the meaning of the movements of the market. And I'll be the first to admit that I don't have the final answer -- nor do I believe anyone will ever reduce market action to a perfect or even a close-to-perfect science. Thousands have tried, hundreds have claimed to have succeeded, none (not even one) has offered proof of success.

Some times the market is easy to read. At other times (most of the time, in fact) it is not easy to read. This is one of the "not easy to read" times. What makes the current market so difficult?

For one thing, we have **divergence,** a lot of it. Normally, in either up or down markets, there is **harmony** in that the Averages (and here I'm referring to the D-J Industrials, Transports and even the Utilities) tend to **move together.** But occasionally, we get dis-harmony in that one Average will go one way and the other one (or two) will move in the opposite direction. The market hates dis-harmony. When the two Averages pull in different directions (divergence) it creates a technical vacuum, and in due time the market will move to fill that vacuum. How is the vacuum filled? The market will tend to **erase** the movement that produced the vacuum.

In the last Letter (page 1) I discussed the remarkable divergence that has been in force for over a year. The divergence is so flagrant that it even shows up on the weekly chart. What we have is the D-J Industrials holding within 8% of its record high, even while the Transports lost 23% of their own value. To top off the picture, the D-J Utility Average lost 32% of its peak price.

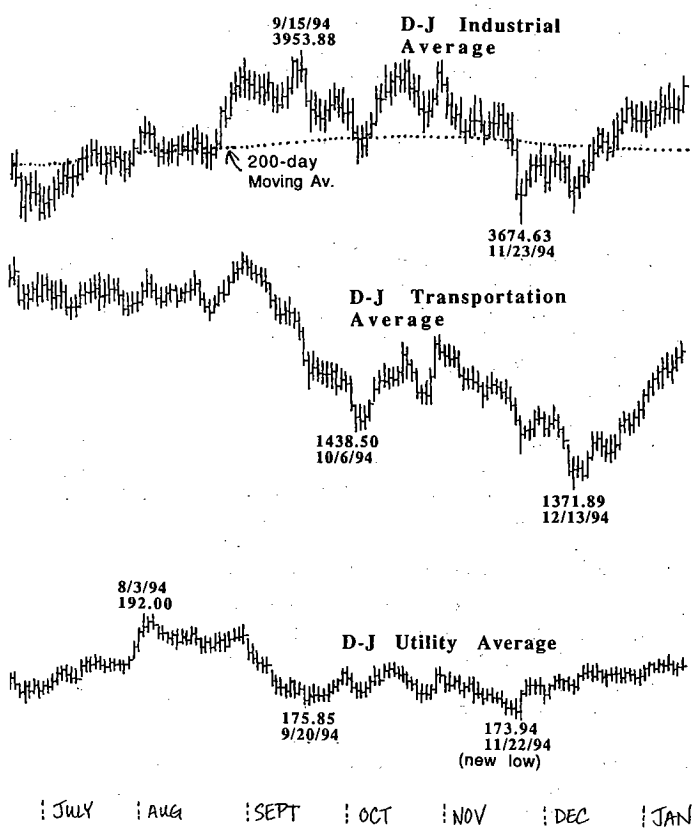
Speaking of the Utilities, *Investment Quality Trends* (located here in La Jolla) notes, "In the past, every major decline in the Utility Average has been equaled or exceeded by a similar decline in the Industrial Average."

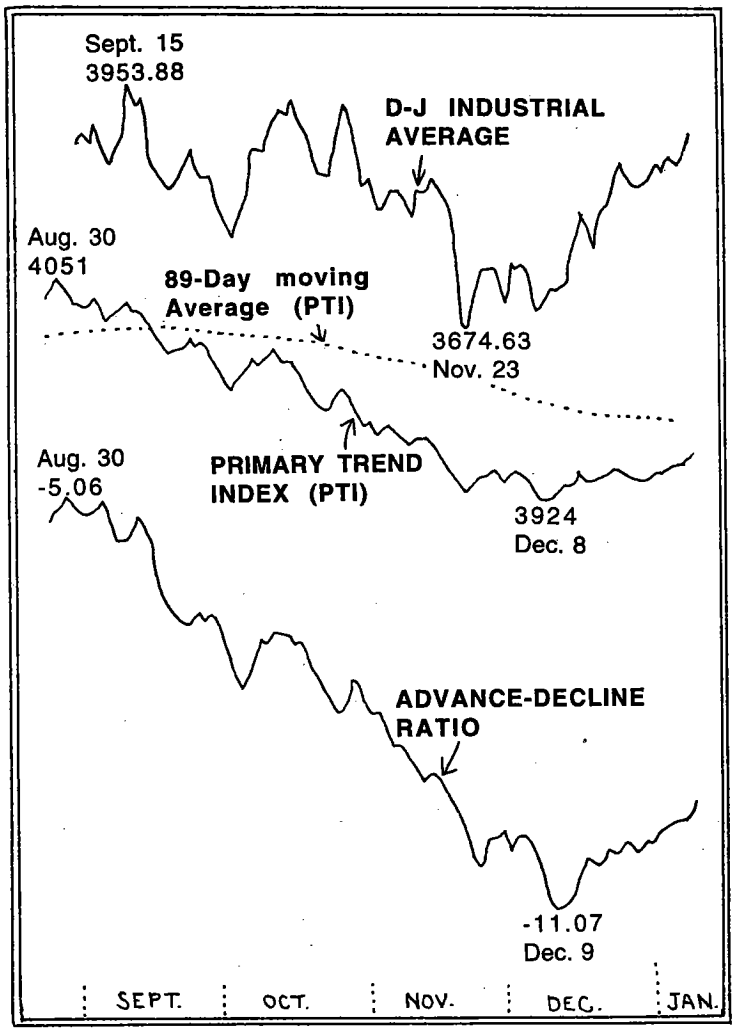
Jan. 6 DJIA 3867.41; PTI 3942; A-D Ratio -9.88
Jan. 13 DJIA 3908.46; PTI 3946; A-D Ratio -9.48
Dow Yield: 2.73%; Dow Price/Earnings: 17.3
Dow 200-day MA: 3775; Dow 30-day MA: 3798
Dow Times Book Value: 3.49; PTI 89-day MA: 3963
Percentage of Undervalued Blue-chips: 12%
Dow Low Risk Buy Index: -11; Gold-PTI: 764
Gold 200-day MA: 384.08

IQ Trends also notes that the "overvalued" price for the Dow (based on an historical study of **Dow yields**) is **3685**. Let me explain. The 3685 figure is based on the price that the Dow would be at if it were to yield exactly **3%.** History tells us that when the yield on the Dow is 3% or less, stocks are overvalued. But the Dow is now well above 3685, in fact it's above 3800. Which means that the Dow is not just overvalued, it's **extremely overvalued.**

How low would the Dow have to drop to enter the "undervalued" area? The Dow would be undervalued (and this almost always occurs at the bottom of a bear market) when it yields **6%** or better. Based on today's total Dow dividend of $110.54, if the Dow was to drop to a 6% dividend yield, then it would have to decline to a price of **1842** (and that's assuming no dividend cuts on the way down).

Here's another strange bit of information about this stock market. Let's use the S&P 500 as a broad measure of stock values. Volatility in the stock market has been amazingly low over the past three years (I define **volatility** as movement, either up or down). In 1992 S&P volatility was a low 11.2% (referring to the peak to





I've added the Dow to the above chart (at least for this week's report), because I wanted to show how **weak** the rallies in the PTI and the A-D ratio have been vs. the rally in the Dow. Of course, the bulls would rather have it the other way around with the A-D and PTI leading, dragging the Dow higher.

trough percentage spread within that year). In 1993 volatility dropped to a record low 9.3%. Then we had 1994 when volatility sank to another very low 9.4%. We've never, ever, had three successive years of such low volatility.

And of course that low volatility encouraged investors. Without violent fluctuations, investors felt very safe. "Heck, if the worst stocks can do is swing up and down 7% or 8% during the year, what am I worried about?" Unfortunately, it wasn't that easy. Despite the low volatility, for every stock that rose in '94, two stocks declined. Which meant that the average portfolio got hit, and in many cases, hit hard.

But three consecutive years of record low volatility? What does this tell us? It tells us that the odds are increasing that we're heading for "make up time." Make up time is the time when the market makes up for unusual or freakish occurrences. Make up time in today's terms would mean a very volatile, wide swinging market, a market that embarked on a major swing either up or down.

A few Letters back I discussed one facet of this market which kept coming to mind. Throughout the year 1994, despite the weakness in most stocks, despite the long decline in the advance-decline ratio, the D-J Industrial Average never really "took the gas." In fact, the Dow never declined as much as 10% on a closing basis.

In the market, what won't go down will ultimately go up. And I've been wondering whether the Dow would have to advance to an (unconfirmed) new record high before the bear trend would truly reveal itself. Frankly, I haven't been able to get that thought out of my mind. Obviously, I don't know if it will happen or even if it's a technical necessity before this bear market gets going on the downside. But it is a thought.

The fact is that despite all kinds of weakness in other stocks, despite substantially higher interest rates, despite ridiculous overvaluation in stocks -- the **Dow** has refused to head down in earnest. Are we being teased? Is the Dow preparing to "set us up"? The January 31, 1994 record high for the Dow was **3978.36**. I continue to wonder -- will the Dow have to engage in a solo flight above the January high before the real bear shows himself? We'll see.

WHY TIME IS RUNNING OUT on this market: I've discussed these items before, but never in combination. (1) The Dow has not experienced a 10% decline within a single calendar year in **four years** -- unprecedented. (2) **Twelve years** have now gone by without the Dow breaking below the low of a previous year -- unprecedented. (3) The Dow has remained overvalued (yield below 3%) for almost **three years.** Unprecedented. (4) I have followed *Lowry's Buying Power-Selling Pressure* studies for decades. It takes very heavy selling to produce a "fully oversold" condition on Lowry's. There have been 65 Lowry "oversolds" in the last 61 years or an average of over one a year. The last fully oversold condition occurred back in October 1990, **over four years ago**. This is the longest time span without an oversold in the history of *Lowry's* (going back to 1933). Therefore, a *Lowry's* fully oversold area is **way overdue**, and as I said, these oversold areas are generated by very heavy, concentrated selling *(Lowry's,* 431 US H'way One, N. Palm Beach, FL 33408).

Considering all of the above, I come to one conclusion. Stockholders and stock-buyers today are unbelievably **confident.** Furthermore, they are totally unaware of stock market history. Last week I received a circular from Merrill Lynch in which they predicted a new bull market! A new bull market with the Dow at a 2.9% yield. Merrill is about to rewrite the history books.

I receive literally dozens of other market advisories. To be honest, I don't take most of them seriously. But one I do take seriously is the one put out by super-market student Ned Davis. In his latest report Ned warns, *"In 1995, get ready for more of the same, that is, don't be surprised to see the trading range continue."* Ned is well aware of the market's overvaluation (bearish) and the series of higher interest rates from the Fed (bearish). But he balances those against the decennial pattern (we're in the fifth year) and the four-year presidential pattern (both cycles are bullish). So Ned concludes -- probably more trading range. **Russell comment:** I wouldn't doubt it, but remember -- the bear is patient, and his favorite song is that old Rolling Stones' standby, "Time Is On My Side."

INVESTMENT POSITION: The bear is in the box. It may not be perfect, but the best position right now (at least for the majority of my subscribers) is to be in three month or six month T-bills. For the more venturesome or sophisticated you might also be in short-term Swiss or German paper.

On a purchasing power parity, the dollar is cheap, but that's not a guarantee that the dollar will hold up against other currencies. The restaurant reviewer for the *NY Times* (Jan. 11) hit a half-dozen of the best restaurants in Paris. Her verdict -- food fabulous, prices sky-high. No, the dollar doesn't buy much in Europe -- so stay here in the states and enjoy your purchasing power (listen, I can get a fine meal in La Jolla for twenty bucks).

Go ahead, buy some of the thousands of stocks recommended by your brokerage houses. Good luck. Buy bonds -- they might have bottomed. Buy gold coins, gold may well have bottomed. But this is a bear market, and for my subscribers our motto is, "Above all,

don't lose money." Best bet for the majority of my subscribers -- stay in T-bills. The bills aren't exciting, but losing your assets isn't exciting either.

PSYCHOANALYZING GREENSPAN: As the headline from the *New York Times* suggests, the entire financial world is focused on "What's Greenspan and the Fed going to do next?" Answer: he's going to fight inflation.

Which brings up the question, why is Greenspan so obsessed with avoiding inflation? My answer: first, we know that the Fed chief is a believer in gold from way back. Greenspan was a follower of the very conservative writer-philosopher, Ayn Rand (she wrote "The Fountainhead" and "Atlas Shrugged"). We also know that back in the '60s Greenspan wrote a treatise, "Gold and Economic Freedom." Once you understand gold, then the kind of fundamental monetary thinking that's associated with gold **stays with you.**

Here are a few quotes from Greenspan's mid-'60s dissertation, *"The abandonment of the gold standard made it possible for the welfare statists to use the banking system as a means of unlimited expansion of credit . . . In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value. If there were, the government would have to make its holding illegal, as was done in the case of gold."*

So the question -- how can a man who fully understands the meaning of gold be head of the Federal Reserve? My answer: Greenspan loves the power of the office, but he also feels that he has to do what he can to preserve the purchasing power of the dollar while working within the framework of the prevailing system.

Greenspan is well aware that the Fed has been an engine of inflation. He also knows that over the years the Fed has allowed the US money supply to balloon, a process that has systematically undermined the value of the dollar.

So here's my interpretation of Greenspan's thinking: "As head of the Fed, I couldn't allow the banks to go under during the recent crisis, so I had to take interest rates way down, thus re-liquefying the banks. I'm also aware that this gold-less system I'm working with produces inflation. But the damn politicians continue to flood us with deficits, and the Fed is forced to generate the conditions necessary to finance those deficits.

"I've got a tough, almost impossible job on my hands. Economic forces are always pushing the economy towards either inflation or recession. I want to avoid both. The problem is that the politicians will always choose inflation over recession. And this is where I've got to be relentless. I've got to stop inflation while operating within a 'paper system' which has jettisoned the discipline of gold.

"So what have I got to work with? Basically, interest rates, and bank reserves. Here's what I'll do -- I'll make money readily available but also expensive. In that way, if I'm lucky, I can slow down the economy, avoid recession, and simultaneously hold back inflation. It's a nasty, difficult business, but someone's got to do it. The politicians may scream at me, but Wall Street likes me. Wall Street knows that I'm the only thing standing between out-of-control inflation accompanied by collapsing stock and bond markets -- and (hopefully) maybe some kind of stability."

NOTES & QUOTES: The *NY Times* is stubbornly liberal and Democratic, but they've been having a hard time with Clinton. In last Sunday's editorial, entitled, "Anyone Home?," they wrote about the Prez'*"doubled-barreled credibility problem"* as follows: *"The American people do not believe what Mr. Clinton says. In addition, they do not believe he knows what he believes."* I agree. But my own analysis is that the American people feel Clinton has no "center," he's an outrageous opportunist who will do anything and say anything if he thinks people want to hear it -- in short, Clinton's a man the people simply do not trust.

But American consumers must trust something. They've increased their personal debt load for **24 consecutive months** -- to a current total of $247 billion. Consumer borrowing is now rising at a **17.3%** annualized rate, but revolving credit (including banks and dept. store credit card debt) is rising at the incredible annualized rate of **24.6%.**

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I've been asked, "Russell, what would have to happen in order to turn you bullish?" And my answer is rather absurd, "The bear market would have to end in order for me to turn bullish." Sadly, I must report that bear markets run to conclusion, from **extreme optimism** among investors (this is the situation now) to **abject pessimism** (which will be the situation when the bear market ends). But good things can happen even within a bear market. To my mind, the most bullish thing that can happen is expressed by this headline (below) from the conservative *Washington Times.* Of course, I'd rather have a national sales (consumption) tax, but a flat tax will do. And if the Republicans are smart enough and gutsy enough to make the flat tax a mainstay of their '96 presidential platform, I think they'll sweep the race -- and Clinton, as we know him, will be history. By the way, Armey's flat tax would impose a tax of 17% on ALL income. All deductions would be eliminated, including mortgage and state income taxes. It would allow a personal exemption of $13,100 for a single taxpayer, $17,200 for single head of household and $26,200 for married couples. The dependent exemption would be $5,300. Under this plan, a family of four would not pay taxes unless it earned more the $36,800 annually. Armey figures the flat tax would remove 10 million Americans from the tax rolls and eliminate 5.5 million man-hours devoted to filling out tax forms. **Russell comment:** Count on it, the flat tax would be a super-plus for the US economy! Note -- in the current tax system 2% of households pay 24% of all federal taxes. And 10% of households pay 45% of all taxes. That's fair?

Armey sees flat tax plank in 1996 race

By Major Garrett
THE WASHINGTON TIMES

Incoming House Majority Leader Dick Armey predicted that the Republican Party will adopt a flat tax rate on all income in its 1996 presidential platform.

"There is a growing consensus on the Hill that the current tax code is going to go," Mr. Armey said in a Dec. 20 interview with editors and reporters of The Washington Times.

"The flat tax has grown bigger, stronger and

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I keep writing about the big split of the '90s and beyond -- the gifted few vs. the unskilled masses. Richard Sennet (in the *International Herald Tribune)* writes, "In Andrew Jackson's time the land owners were the hated elite. In John D. Rockefeller's time it was the industrialists." Sennet adds that today the mass of people are threatened by becoming redundant, and really all they have is their willingness to work. "Most Americans are shut out of the new world. Seventy percent of the adult population does not know how to use a computer, most high school graduates cannot read a train schedule, a large minority cannot reckon a simple interest on a bill . . . The new economy needs the mass of these Americans less as producers or workers than as consumers . . . But only a fifth of young Americans have the training or skill to act flexibly and individually. The other four-fifths, who have no personal bargaining power, can only worry about getting some job, any job." **Russell comment**: Yes, this is the big problem, the big "split" of the '90s. Today it's either learn a nitch trade, become technical, understand computers -- or flip hamburgers. It's not a healthy situation, and it's worsened because all industrialized nations, including the US, are **exporting low paying jobs overseas,** particularly to Asia.

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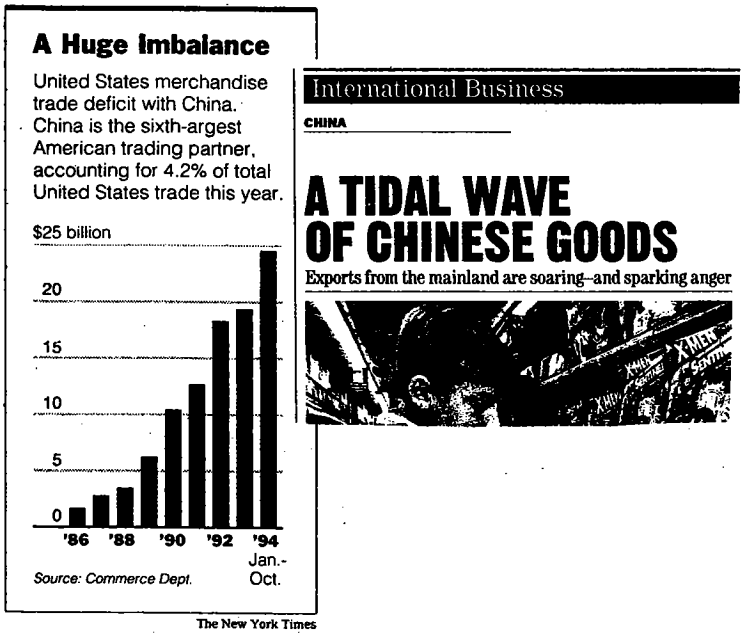
And speaking of overseas, the US negative trade balance with China is exploding (see chart) This, among other things is causing BIG problems. Because of Chinese piracy of CDs, computers, and other items, the US now threatens to impose $2.8 billion of retaliatory tariffs against China. And China threatens to retaliate in kind. One problem -- the US faces a current account imbalance of probably $160 billion this year. This puts long-term pressure on the dollar, since this imbalance means that the world continues to load up on dollars, and too many dollars are simply "too much of a good thing." Note: many popular CD knockoffs are selling in China at three for $5.



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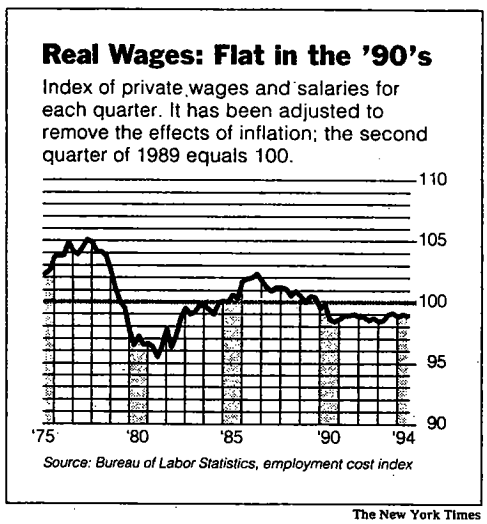
If "prosperity" is here, why aren't Americans happy? One basic reason is shown on this chart. During the '90s **real wages have not risen,** but costs have. Reasons: weakening of labor unions, inefficiencies, layoffs, widespread use of computers and use of alternative cheap foreign labor. For whatever reason, Americans (with both spouses working) are not "keeping up."



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My old Canadian friend, Ian McAvity refers to the Canadian dollar as the "Northern Peso." And with good reason. I remember many years ago when I gave a speech in Vancouver the Canadian dollar was worth $1.15 in US dollars. But Canada's huge debts and its socialist-leaning government has sunk the Canadian dollar. The Canadian dollar is not the peso, but it certainly has been fading. For instance, in late-1992 the Canadian dollar was worth a little over 88 cents. Last week it sank to a low of 71 US cents. Problem -- the Canadian government is running up debts at the prodigious rate of $3.6 million an hour. Comparing outstanding government debt with Gross Domestic Product is popular with economists these days. Here are some comparisons: Japan (debt to GDP) -- a low 8.5%; US -- 39.5%; France -- 43.8%; Britain -- 47%; Germany -- 47.5%; Canada -- 64.9%. The "sick man" of the industrialized world is Italy with an horrendous ratio of 119.4%. FOREX traders talk about a currency "hitting the wall." The wall is the ratio-level which sets off questions about the very viability of a nation's currency. Will Canada hit the wall? Many observers believe Canada is coming awfully close.

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When a newspaper offers its opinions in an editorial, it helps if they know what the hell they're talking about. This is from an editorial in the May 24, 1994 *Los Angeles Times:* "Robert Citron's winning record as Orange County's treasurer-tax collector is good enough that he deserves re-election . . . The challenger has no experience in investing billion of dollars, while Citron's 24 years in office have included rising and falling stock markets. His successful stewardship of the country's money has given the supervisors funds for programs they otherwise could not have afforded." **Russell comment**: Right, and now the supervisors are going to learn all about dealing with bankruptcy.

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Getting elected may be the easy part -- getting the **Contract With America** through both Houses will be the hard part. Remember, it's going to take 218 votes in the House and 51 votes in the Senate to pass a bill (assuming no veto from the Prez). The Republicans have only a 12 vote margin in the House. This is the *smallest* majority in 40 years. In the Senate the GOP majority is only 6 votes. And not all Republicans agree on all points in the Contract. How about Clinton using his veto to sink the Contract? I doubt that Clinton is going to get in the way. In fact, from the looks of it Clinton is going to stay as far away from the legislative process as possible. And why not? Clinton hates to make firm decisions on anything.

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Speaking of the people who make up Congress, most of them are white, middle-class professionals, most are lawyers, most went to big-name schools like Harvard or Yale or big-state schools like Texas or Michigan. Only one-fourth (surprisingly) served in the military. Four out of five are married, 7% are divorced, and of the divorced, 70% are Democrats. Members have more than 1,000 children.

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Only in America. Newt Gingrich is arguably the most powerful politician in America (and I would guess he'll be running for President in '96). Gingrich's mother married at 17; her husband was age 19. Newt was born in the first year of the marriage. The marriage was a short one, and his parents divorced almost immediately. Newt's mom then remarried -- to Bob Gingrich, a military man. Bob Gingrich's mother was an unmarried teenager. Newt grew up as an "army brat," but also a highly intelligent bookworm. Newt did not serve in Vietnam since at the time he was married with two children. Gingrich was fascinated with the Federalist Papers and US history. Russell comment: This guy knows the Constitution! And he means to implement it. In case you haven't guessed, I think a lot of Gingrich -- I'm all for him. Gingrich is a conservative with a sense of history, a man who likes power and is intent on getting things done.

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The collapse of the peso is bringing up a lot of questions. Who authorized the US Treasury and the Fed to loan Mexico $9 billion of the American people's tax dollars? And why are we doing it? Well, the answer is that we don't want Mexico to fall apart. You see, the collapse of the peso makes wages that much cheaper in Mexico, and it also makes it that much more difficult to ship US goods to Mexico (our goods now appear high-priced to Mexicans). So much for Clinton's much-loved NAFTA. Americans lost roughly $20 billion on the peso devaluation. And as Sindlinger puts it, *"NAFTA has cost a net of 30,000 to 50,000 jobs as the trade deficit sinks to its worst annual rate in history."* And oh yes, where US corporations could hire seven Mexicans, they can now hire 10 for the same number of bucks.

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Did the "experts" see the devaluation coming? Well, not exactly. From **JP Morgan** in November: "Mexican peso provides attractive investment returns." And on Dec. 2 they said, "We do not expect dramatic announcements intended to change the sentiment of the market." A day before the devaluation **Bankers Trust** said experts "do not think a shift in exchange-rate policy is an option." The **Swiss Bank Corp.** said that Mexico was actually a candidate for investment-grade status. **Salomon Bros.** in Nov. saw the inauguration of President Zedillo as "paving the way for a . . . short-term currency appreciation." **Smith Barney** played down the risk of devaluation and saw Mexico as an investment opportunity. **Moral** -- devaluations are never announced by governments beforehand -- they burst unexpectedly on the scene.

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Washington (particularly the Republicans) are having second and third thoughts about Jimmy Carter's "treaty" with North Korea. First, nobody knows where supposed dictator Kim Jong Il is or what's happening to him. He just seems to have disappeared (or has the military put him on ice?). Second, the US along with S. Korea and Japan promised (it's in the agreement) to put up $4 billion, and in turn N. Korea is to shut down its nuclear facilities. But now there are questions about whether our "allies" will actually come up with the money. As the *NY Times* put it, "Washington could find itself stuck between a dictatorship without a dictator and democracies without dough."

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Ford paid $2.5 billion for Jaguar, and I said at the time that this was a milestone in the history of ridiculous overpayments. So far, Ford has sunk $4 billion into the Jaguar auto company -- this includes accumulated losses of more than $1.2 billion and capital injections of $320 million. I used to own Jaguars, but I gave up on them -- they were beautiful but gas-eaters and basically 1950s cars. When Jag CEO Lyons died, the company changed the car's gorgeous design and rendered the new Jags ordinary looking. Ah well, I'm sure Ford meant well when they bought the company, and it got rid of a lot of their spare cash.

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I wrote about the two new Warren Buffett books in the last Letter (Buffet's 45% ownership of Berkshire Hathaway 1.18 million shares is now worth over $10 billion). But this is interesting. *Evans Investment Advisors* (Boca Raton, FL 33432) notes the following about Buffet's fabled Berkshire Hathaway: "The stock of the *Washington Post,* which Buffett calls one of his four 'core' companies that he will ' never' sell is lower than it was eight years ago. Buffett's more recent forays into Salomon Bros. and US Air have been disasters. Geico Insurance is 25% off its 1992 highs. Of his core holdings, only Cap Cities and Coke continue to do well, and while those were brilliant picks years ago, Buffett's recent performance has been puzzling. So we're not chasing after newspaper stocks even though the world's richest and most beloved investor has taken a major (4.9%) position in Gannett." **Russell comment:** Interesting, we'll just have to see how Buffett fares as the bear market wears on. You know, the market loves to bring down its heroes.

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I just received a letter from the head of a medical group headquartered in Arkansas. The good doctor wants to know who benefits from inflation. Answer: the US government and anyone who has issued debt (since, obviously, inflation allows them to pay off their debt with cheaper dollars). The doctor then wants to know what might happen to the dollar over the next 20 years. The answer is to use the **"73"** formula. This formula tells us how long it takes to double one's money. If inflation is 4% you simply divide 73 by 4 and you get 18.2, which tells you that with 4% inflation, in roughly 18 years the purchasing power of the dollar will be halved. At 5% inflation (divide 73 by 5) the dollar's purchasing power would be halved in 14.6 years. Items: the *LA Times* (daily) is raising its price to 50 cents from 35. Item: the price of paper and newsprint is exploding, up 25% over the last year. And you know about postage stamps.

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THANKS: As I grow older, I think more and more about the good things in life and who and what to thank. So here goes: thanks for my great wife (I've been married to her for 10 years) and thanks to my previous two wives who I'm still "good buddies" with. Honest, it's a pleasure (and good karma) to be on very good terms with ex-spouses. Thanks for four fine, healthy kids, ages 14 to 38 (and to one autistic daughter who caused me a lot of pain, but from whom I've learned a lot). Thanks for my good health; I've had a mastoid operation, a double hernia operation, a big motor cycle crash, many stressful near-death escapes during WWII, two heart attacks, open heart surgery, a stent put in one vein -- but you know what -- I feel great, although I keep getting confused, because I still think I'm a teen-ager. Thanks for football and the crazy San Diego Chargers, who keep us hoping that some day, maybe . . . Thanks for the fabulous weather in San Diego, arguably the best in the world. Thanks to the *International Herald Tribune*, which keeps me on their list gratis [I never stop recommending this great newspaper; try it -- call (800)882-2884]. Thanks to the stock, bond and commodity markets, which for me are a never-ending source of fascination. Thanks to the Republicans for ending 40 years of government mismanagement and corruption (now if only the GOP will do better). Thanks to TV. I don't care what the super-sophisticates say, TV offers a lot of extraordinary programming. Thanks to my 70 years (I still can't believe this) of experience on earth, from the Great Depression of the '30s to the great debt-financed boom of the '80s and '90s. You know, there's nothing like experience; there's nothing like having "been there and done that" (even though it may have been no fun at the time). Thanks for the Dow Theory, and all the brilliant minds in this business who went before me. I've had a lot of mentors, some living, most dead. Thanks to all my friends, who've had to put up with my difficult personality (me, I don't think I'm so difficult, although my wife, Faye, says differently). Thanks to my business; I started Dow Theory Letters in 1958 with a hundred bucks -- it's been profitable every year since and it has supported a lot of good people. This list could go on for pages, but wait -- thanks to all my 7,000 subscribers, many of whom have stayed with me for over 30 years. Finally, thanks to the powers above, who've kept me mostly happy, often worried, often ecstatic, usually puzzled, always eager to learn -- but in general having a better and better life as time goes on.

A neophyte asked the wise man for a single saying that would fit ALL occasions. The wise man told him, "This too shall pass away." Someone asked me (and I'm not a wise man) to provide a saying that might have fitted all my life situations. I told him, "Nothing's easy." Yes, I found that to be true. But then, God didn't put us on earth to live a life of ease. He put us here to learn, to solve problems, to advance ourselves and to advance the human race. And God was well aware that *it wouldn't be easy.* If it was easy, we'd never learn a thing. We grow through frustration. We get stronger by working through our frustrations.

And the difficult part is that although there are many who will help us, ultimately, we have to do it ALONE. And as you know, that's not easy. Ibsen said, *"The strongest person in the world is the one who is most alone."* I've never doubted that statement.

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Am I psychic? Nah, but listen to this. After the Charger-Miami football game (Dec. 8) Faye and I dined out at the Piatti restaurant here in La Jolla. All of San Diego was hysterical following the Charger's cliff-hanger win. Feeling happy and relaxed, I said to Faye, "You have to hand it to Pete Rozelle (former NFL Commissioner), he turned professional football into the greatest sport spectacle in America." About 30 seconds after I had said that who walks into the restaurant but Pete Rozelle and his wife. They sat down at the table next to us. I couldn't resist, I told Rozelle what I had just said to Faye. He shook his head in amazement, thanked me for the compliment and said, "Wasn't that a great game?!" I replied, "It sure was, and now it's on to Pittsburgh and all that cold weather."

* *

Speaking of sports, on Thursday (Jan. 12) the trials for **America's Cup** began -- held off the coast of San Diego, and sponsored by the San Diego Yacht Club. The prize -- world supremacy in sailing. The US will enter two boats, and one US entry is generating huge interest. "America Cubed" will be manned by a crew of 29 women. These women are putting in 12 hour days, pumping iron, sailing, shore chores, etc. The super-women were picked from 650 applicants. The finals for America's Cup will be in May. Go USA.

* *

The turns of the century usually ushers in huge happenings and great people. Take the amazing years 1895 to 1905. We had Picasso, Monet, Renoir, Cassat, Njinsky, Puccini, Matisse, Caruso, Joseph Conrad, Henry James, Mark Twain, H. G. Wells, Edith Wharton, Kipling, Bernard Shaw, Richard Strauss, Sousa, Debussy, Tolstoy, Dostoievski, Hearst, Ford, Geronimo, Wyatt Earp, J. P. Morgan, George Washington Carver, William Jennings Bryan, Einstein, the first movies, the first modern Olympics, electrocardiograph, adrenaline, local anesthesia, aspirin, diphtheria antitoxins, radioactivity, dynamite, Alfred Nobel, Mary Baker

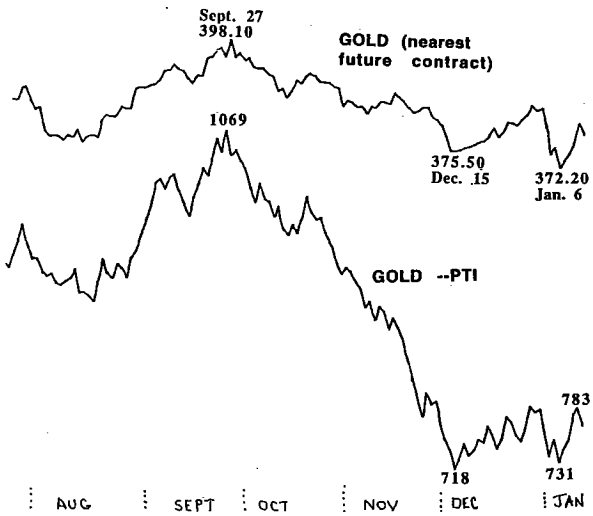
Eddie and Christian Science. I mean it was a fabulous end of the century. Let's hope 1995 to 2005 will be as good.

* *

A thousand **apologies.** I included the wrong number for the **chelation** tape mentioned in the last Letter. For those who don't know, chelation (key-lation) is an alternative (non-surgical) treatment to clean out blocked arteries. It amounts to 2.5 to 3 hours of intravenous infusions of EDTA (an amino acid). I believe it works. I've had 35 sessions, and I'm still checking in, I feel great, and this is despite two heart attacks, a quintuple bypass and a "stent." If you're interested and want the tape, call the right number which is **(800)728-2288** (price for the tape including postage is $41.95). And no, I don't make a cent on the offer. For that matter, I never take money or a commission for anything I offer.

Incidentally, there seems to be an enormous and rising interest in alternative medicine these days. I don't know whether this is an end-of-the-century phenomenon or a consumer reaction to the huge expense of orthodox medicine. The whole thing is driving the FDA crazy, and the agency is frantic to label, regulate or control everything from cigarettes to vitamins to canned chicken soup. It sometimes takes the FDA 10 years to OK a drug that is freely available in Europe. Heil FDA.

GOLD: The rumors are flying -- devaluations are coming in Spain, Italy, Sweden, Canada, Argentina, maybe even France. Michael Metz (Oppenheimer) created a stir when he announced that he believes gold could be 420 by February. All of which set off a pop in gold, sending the February futures contract up over 380.

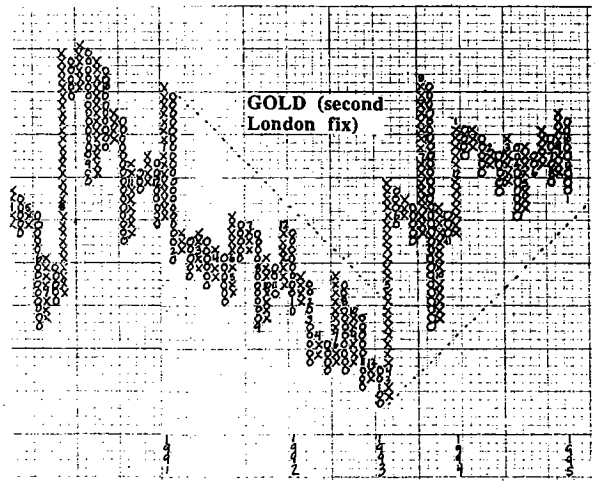


A little recent history -- my **Gold-PTI** (see chart) hit its low of 718 on December 5. It rallied to 783 on December 28, then turned down to test the 718 low. The test was successful and the G-PTI bounded up again. However, I must confess that with all the talk of "a weak dollar" and "potential devaluations" in a number of currencies, it is not encouraging that gold continues to act tentative and just plain reluctant.

On a near term basis, the target for gold (second London fix) is to rally above the 387.30 recorded on December 23. Above that level, and maybe gold's got a good thing going.

On the point & figure chart (and this is a very important chart) gold continues to hold above its bullish (rising) trendline. The first really important upside breakout would be a second London fix at 398. What we don't want to see is gold breaking down to the 368 level, since that would constitute a bearish downside reversal.

What is particularly hopeful for gold here is that, historically, the metal tends to bottom in the fourth quarter of the year. Which means that there is a good chance that the 372.20 of January 6 represented an important low. Note, by the way, that gold's low of January 6 (372.20) was NOT confirmed by a new low on the G-PTI.



The cream of the gold shares have to be Placer Dome, Newmont Gold and American Barrick. These stocks tend to pop on any encouragement from the metal.

I watch the currencies like a hawk. In fact, I have a satellite dish (DTN) which gives me quotes on the currencies around the clock (is that why I get up at 3:30 in the morning?). Interestingly, the consensus among the "experts" is that the DOLLAR was due to take off on the upside during the first quarter. This didn't square with the "Commercials" (the big users) who have taken long positions in the D-mark, the Swissie and especially in the yen. I might note that in the commodity business the commercials tend to be right and the "experts" (including the traders and the funds) tend to be wrong. Thus, we're seeing some dollar weakness as we enter the new year, and, of course, dollar weakness "should be" a bullish factor for gold.

LATE NOTES: As of this writing the stock market continues to push higher, but it is now extremely overbought. My, how that Dow would love to register a new all-time high. Can it do it? We should know within the next month or so.

Football -- it was a classic study in arrogance, and it prompted me to write the following:

Hark, the people of the Pitts, they waveth their terrible towels,
And their feared champions sweareth victory in the icy freeze of the three Rivers,
But God calleth for a great warmth to come over the East,
And lo -- in a mighty battle, the last becameth the first,
Then a deathly silence crept over the Burgh that they calleth the Pitts,
And there was a great gnashing of teeth and the people waileth and teareth their towels.

Super Bowl spread in favor of the 49ers -- a record 18 points. But you know something, I suspect that spread is excessive. Again, nobody expected anything of San Diego (which is always a big advantage to the underdog).

The Pittsburgh game reminded me very much of "churning" in the stock market. The Steelers passed for huge yardage, but never put any points on the board. The Steelers were "spinning their wheels" without getting it done. Two perfect 43 yard passes from the Chargers were worth more than all the 54 Steeler passes. As for the NFC game, I somehow don't think the Cowboys came ready to play. The game was lost on three incredible turnovers in the first quarter. From there on, it was catchup for the Cowboys, and (like an investor who loses half his money on a bad speculation), the Cowboys were never able to come back against the Niners, who are clearly one of the greatest teams in football history.

NEXT MAILING: Feb. 1, 1995